

Message Text

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SUBJ: BOYCOTT OF US-OWNED FIRM LEO BURNETT

SUMMARY: US-OWNED ADVERTISING FIRM LEO BURNETT, BESET BY ECONOMIC DIFFICULTIES, SEEKS TO SURVIVE BY CUTTING BACK ON OPERATING COSTS. SINCE CUT-BACK INVOLVES REDUCING PERSONNEL, LABOR PROBLEMS HAVE RESULTED. FIRM NOW FACES BOYCOTT OF ITS ADVERTISING SERVICES BY MEDIA EMPLOYEES WHO CHARGE THAT STAFF REDUCTION IS PART OF REACTIONARY MANEUVER BY MULTINATIONALS CONSPIRING TO UNDERMINE PORTUGUESE ECONOMY. EMBASSY HAS DISCUSSED MATTER WITH OFFICIAL OF MINISTRY OF MAA COMMUNICATION, POINT OUT POTENTIAL SERIOUS CONSEQUENCES FOR BOTH PORTUGAL AND US SHOULD FIRM'S CLOSING BE ATTRIBUTED TO POLITICAL RATHER THAN ECONOMIC REASONS. END SUMMARY.

1. LEO BURNETT LDA. IS WHOLLE OWNED SUBSIDIARY OF CHICAGO BASED INTERNATIONAL ADVERTISING AGENCY LEO BURNETT INTERNATIONAL INC. IT HAS OPERATED IN PORTUGAL SINCE 1969, BEING FOURTH LARGEST AGENCY IN 1973. IT IS ONLY MAJORITY US-OWNED AD AGENCY (THERE IS ONE GERMAN MAJORITY OWNED FIRM).

2. DESPITE NET PROFIT EARNED IN 1973, LEO BURNETT'S OVERALL
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POSITION BY END OF 1974 ANTICIPATED SHOW CUMULATIVE LOSS OF 3.9

MILLION ESCUDOS (DOLS 156,000); OF THIS FIGURE, APPROXIMATELY 3 MILLION ESCUDOS REPRESENTS LOSS ANTICIPATED IN 1974. DUE TO WORLD-WIDE ECONOMIC DOWNTURN AND PARTICULAR CIRCUMSTANCES IN PORTUGAL, LEO BURNETT EXPECTS 1975 TO BE "BLEAK" YEAR FOR ADVERTISING INDUSTRY HERE. FIRM ACCORDINGLY DECIDED REDUCE LOSSES BY CUTTING BACK OPERATING EXPENSES, I.E. REDUCING PERSONNEL (FIRM SAYS PAYROLL REPRESENTS OVER 70 PERCENT OF EXPENDITURES). DECISION TO TERMINATE PORTION OF STAFF COMMUNICATED TO EMPLOYEES OCT. 24.

3. SINCE OCT. 24 FIRM HAS HELD DISCUSSIONS WITH ITS EMPLOYEES, REPRESENTATIVES OF UNION INVOLVED AND OFFICIALS OF MINISTRY OF LABR. UNION'S INITIAL RESPONSE WAS DENUNCIATION OF FIRINGS AS "YET ANOTHER MANEUVER OF MANAGEMENT OF MULTINATIONAL CAPITALISM." UNION HAS SINCE CALLED FOR MEDIA BOYCOTT OF ALL ADVERTISING PLACED BY LEO BURNETT AND HAS NOTIFIED FIRM'S CLIENTS THAT THEIR ADVERTISING WILL ALSO BE BOYCOTTED IF ATTEMPTS ARE MADE TO PLACE ADS DIRECT. NEWSPAPER ARTICLES HAVE REPORTED THESE DEVELOPMENTS, PLACING THEM IN CONTEXT OF ATTEMPTS BY FOREIGN INTERESTS ("MULTINATIONAL" BOGEYMAN) TO UNDERMINE PORTUGUESE ECONOMY. IN NOV. 18 MEETING WITH EMBOFFS, LEO BURNETT MANAGER STATED THAT BOYCOTT, IF CONTINUED, WOULD FORCE FIRM TO CLOSE DOORS ON PORTUGUESE OPERATION. HE STATED THAT, GIVEN FIRM'S ECONOMIC CIRCUMSTANCES, DECISION TO CONTINUE OPERATION THROUGH 1975 MARGINAL AT BEST. IF FIRM'S CASH FLOW INTERRUPTED BY BOYCOTT, SHUTDOWN WOULD BE LOGICAL NEXT STEP.

4. EMBOFF RAISED LEO BURNETT CASE DURING NOV. 19 DISCUSSION WITH OFFICIAL MIN. MASS COMMUNICATION. TWO POINTS MADE WERE:

A) SITUATION WILL PRODUCE SELF-FULFILLING PROPHECY, AS BOYCOTT WILL RESULT IN WITHDRAWAL OF ANOTHER "MULTINATIONAL" FIRM FROM PORTUGAL THEREBY ADDING TO ECONOMY'S WOES AND PRODUCING THE "UNDERMINING" AGAINST WHICH BOYCOTT PURPORTS TO PROTEST;
B) WHILE FAILURE OF ANOTHER FIRM OPERATING IN PORTUGAL WOULD BE UNFORTUNATE, FAILURE BECAUSE OF POLITICALLY-INSPIRED BOYCOTT (NOT ECONOMIC REASONS) COULD AUGMENT CLIMATE OF FEAR/UNCERTAINTY AMONG FOREIGN INVESTORS. INTERESTS OF NEITHER US NOR PORTUGAL ARE SERVED BY INVESTMENT CLIMATE IN WHICH FOREIGN CAPITAL IS AUTOMATICALLY SUSPECT.
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5. MINISTRY OFFICIAL INDICATED UNDERSTANDING FOR PROBLEM AS OUTLINED AND PROMISED BRING MATTER TO ATTENTION APPROPRIATE OFFICIALS. HE SUGGESTED EMBASSY SIMULTANEOUSLY PURUSE MATTER WITH MINISTRIES OF LABOR AND FOREIGN AFFAIRS.

6. FYI: EMBASSY NOT IN POSITION EVALUATE COMMERCIAL POSITION OF LEO BURNETT NOR LOGIC OR EQUITY OF ITS DECISION TO DISMISS

SIZEABLE PORTION OF ITS EMPLOYEES. HOWEVER, OTHER AD AGENCIES APPARENTLY HAVE DECIDED TO TAKE TEMPORARY LOSSES RATHER THAN REDUCE STAFF. BECAUSE OF ITS DECISION TO CUT PERSONNEL, LEO BURNETT IS ISOLATED, A POSITION WHICH IS MADE MORE DIFFICULT BECAUSE IT IS THE ONLY MAJORITY US-OWNED FIRM. THERE IS ALSO SOME EVIDENCE THAT BURNETT'S METHODS DURING NEGOTIATIONS WITH ITS WORKERS MAY HAVE PROVOKED THE STRONG REACTION FROM THEM.

7. OUR CONCERN AT POLITICAL IMPLICATIONS OF BOYCOTT (AND LIKELY CONSEQUENT SHUTDOWN OF FIRM) IS HEIGHTENED BY IMPRESSION GAINED, DURING CONVERSATION WITH LEO BURNETT'S MANAGER, THAT FIRM WOULD NOT BE ABOVE TAKING RETALIATORY ACTION IN EVENT IT FORCED TO END OPERATION HERE. GIVEN ITS POSITION AS INTERNATIONAL ADVERTISING AGENCY, FIRM COULD INFORM POTENTIAL FOREIGN INVESTORS THAT PORTUGAL IS BAD SHOW, SCARING AWAY CAPITAL AND IN FACT HELPING TO CREATE "INTERNATIONAL ECONOMIC CONSPIRACY" WHICH PORTUGUESE PRESS CONSTANTLY DESCRIBES.
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